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April 1, 2005

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To: CVP Water Association Members and Friends

From: Robert Stackhouse, Executive Director, CVP Water Association

Subject: CVP Water Association Happenings – April 2005

Family Farm Alliance (FFA) Has New Manager, President – At their annual meeting earlier this month, the FFA announced the selection of Dan Keppen as Executive Director and Pat O'Toole as President. Dan replaces Craig Smith who has been with the FFA for almost five years and is stepping down in order to increase his ministry activities with his church in Salem, Oregon. Dan's office is located in Klamath Falls, Oregon and he can be reached by telephone at (541) 850-9007 or by email at kep@cvcwireless.net.

FFA to Participate in the April 5 Water Conference Before the Senate Committee on Energy and Natural Resources – The FFA was one of the 22 groups selected by the Committee's staff to present and discuss their proposed solutions to the challenge of meeting the nation's ever increasing demand for water at a half-day bipartisan conference on Tuesday, April 5. The Committee announced the conference in early March and invited the public to submit written proposals that addressed various aspects of domestic water challenges. The FFA's submission can be found on their web site at <http://www.familyfarmalliance.org>.

In response to their request for proposals, the committee received more than 130 proposals from the public, utilities, environmental organizations, universities, think tanks and state and federal agencies. From those proposals they selected 22 groups to provide their ideas on one (the Western States Water Council is responding to two) of the following topics:

- Water Supply and Resource Management Coordination
- Future of the Bureau of Reclamation (this is the FFA's topic)
- Indian and Federal Reserved Water Rights
- Conservation and Technological Developments/Knowledge of Water Resources

CVP M&I Water Shortage Policy – On March 22, Reclamation announced the availability of the Draft Environmental Assessment and Draft Finding of No Significant Impact for the subject policy. Development of this policy began in 1993 when Reclamation held meetings and workshops to develop a CVP Shortage Policy that would help sustain urban areas during droughts and assist M&I water service contractors in protecting public health and safety during severe or continuing drought. A draft Shortage Policy was released in February 1994. In 2000 and 2001 additional workshops were held resulting in the release of the latest draft shortage policy dated September 11, 2001. Written comments on the Draft Environmental Documents are due to Reclamation by the close of business on Friday, April 22, 2005.

Renewal of CVP Long-Term Water Contracts – In February and March, Reclamation executed those long-term CVP contracts for which the negotiations of the final terms had been completed and for which Reclamation had completed the required environmental compliance, including those requirements of the Endangered Species Act and National Environmental Policy Act. All of the executed contracts meet all statutory requirements including those of the Central Valley Project Improvement Act and the State of California permits and licenses issued to Reclamation authorizing the diversion, storage and use of water.

As you are aware, certain environmental groups and congressional members have for some time tried to derail the renewal process using half truths, biased (and often inaccurate) arguments, and unfounded hyperbole. Even today, after most of the contracts have been executed, their efforts to overturn the renewal contracts continue. We whole heartedly commend and compliment Reclamation (and especially Kirk Rodgers and his staff), the Department of the Interior and the Bush Administration for having the fortitude to complete the long and often contentious negotiations, finalize the lengthy environmental reviews and execute the contracts. **Good Job ALL.**

Upcoming Events

April	5	CVP Water Association Board of Directors Conference Call Meeting
	7	CBDA Working Landscapes Subcommittee in Sacramento
	8	ACWA State Legislative Committee Meeting in Sacramento
	11-12	California Water Law and Policy Conference in San Francisco
	13-14	Joint California Bay-Delta Authority/BD-PAC Meeting in Sacramento
	15	Hearing on SWRCB Fee Litigation in Sacramento
	20	FWA/NRDC Hearing with Judge Karlton in Sacramento
	21	State Water Contractors Board of Directors Meeting in Sacramento
	22	CVP Water Association Financial Affairs Committee Mtg in Sacramento
	17	State Water Contractors Board of Directors Meeting in Sacramento
	27	CALFED Operations Group Meeting in Sacramento
	29	ACWA State Legislative Committee Meeting in Sacramento
May	3	CVP Water Association Joint BOD/FAC Meeting in San Jose
	4-6	ACWA Spring Conference in San Jose

Environmental Report – April 2005
Serge Birk – Environmental Director
CVP Water Association

CALFED Ecosystem Restoration Program (ERP) Science Board Meeting

At this March 8 meeting, the ERP Science Board (SB) discussed the importance of developing indicators or measures of success to track ERP investments and efficacy of the ERP. The SB reported that a subcommittee has been formed to complete these tasks. The SB also reported that CALFED will be recruiting post doctoral researchers to investigate scientific uncertainties associated with water operations and ecosystem restoration.

Trinity River Flow Schedule Meeting

For this year's Trinity River flows, Reclamation has opted to use the 50% exceedence criteria of the CVP Operating Criteria and Procedure (OCAP), which is in conflict with the Trinity River Record of Decision (ROD) to use the 90% exceedence criteria. If current hydrologic conditions remain unchanged, this would result in providing normal year flows verses dry year flows on the Trinity River and reducing exports to the Sacramento River. Westlands Water District and others have pointed out this discrepancy to Reclamation and, to my knowledge, discussions are continuing.

Resolution of this issue of 50% versus 90% exceedence was not discussed at the March 10 meeting in Weaverville and the proposed flow schedule used by biologists was based on the 50% exceedence and forecast. The main substantive issues discussed involved: (1) deviations from the ROD flows; (2) whether flows need to be changed in the spring because of potential negative impacts of high flows during the spring disrupting the yellow legged frogs and western pond turtles, and; (3) the issue of acquiring water for fall flows for the lower Klamath River, if needed. Trinity River biologists will be presenting a proposal for the Trinity Management Council's (TMC) consideration during meetings scheduled for April 14th and 15th.

The Trinity River Adaptive Management Working Group (TAMWG) is scheduled to meet on April 12 and 13th. However, the Secretary of the Interior has not yet made appointments to the TAMWG and the scheduled meeting may be cancelled as a result.

Northern California Water Association Annual Meeting

The keynote speaker at this meeting held in Yuba City on March 11 was Tom Graff from Environmental Defense.

CALFED Environmental Water Program Scoping Meeting

I was the only public individual at this meeting held in Red Bluff. If you are interested in the questions posed by the CVP Water Association at the scoping meeting, please contact me at sergebirk@msn.com.

CALFED ERP Subcommittee

At this March 17 meeting held in Sacramento, presentations were made by the Friant Water Authority and by consultants and stakeholders involved with restoration activities for the San Joaquin River. Mario Santoya from FWA discussed past technical studies, while stakeholders and consultants discussed strategies to restore the riparian corridor and proposals to introduce spring run Chinook salmon to the San Joaquin River from Butte Creek in Northern California.

Ms. Lisa Holm, Program Manager for the Water Quality Program made a presentation on program status of the Water Quality Program.

The CALFED Bay Delta Program Ecosystem Multi-Year Program Plan (Years 6-9) and Annotated Budget (Year 5) was presented for review. The Plan and Budget will be presented at the June meeting of Authority.

CVPIA Restoration Fund Roundtable (RFRT) Meeting

RFRT members were updated on:

- Fiscal year 2004 collections and expenditures
- Fiscal year 2005 Restoration Fund Budget
- Fiscal year 2006 Anticipated Budget
- Fiscal year 2006 Annual Work Plan Process

A report was made on CALFED ERP Stage 1 Implementation Status. This accounting is particularly important as it indicates what Category A (CVPIA activities) are being implemented in conjunction with CALFED.

A letter dated March 16, 2005 from Messrs. Rodgers and Thompson was presented in response to RFRT Ad Hoc Committee request dated January 6, 2005 for information on the agencies plan for completion of the CVPIA Program Evaluation Process. Copies of the letters are available upon request.

American Fisheries Society Annual Meeting

Ryan Broderick, Director of California Fish and Game, was the keynote speaker at the March 17 and 18 American Fisheries Society Annual Meeting held in Sacramento. He noted the restoration challenges of the future and accomplishments to date. At the meeting, numerous presentations were made about CALFED and CVPIA fishery

projects. Additionally, papers were presented on fishery issues in Nevada which were informative as to genetic issues and endangered species recovery.

Environmental Affairs Meeting (EAC)

At the EAC March 22nd meeting in Sacramento:

- Alan Thompson of the East Bay Municipal Utility District made a presentation on the Freeport Diversion Project
- Marcia Wolfe, consultant to FWA, provided a summary of the Draft Fish and Wildlife Service Recovery Plan for Vernal Pools
- Frank Michny of Reclamation provided an update on environmental activities within the Mid-Pacific Region
- Discussions were had on the Battle Supplemental EIS and the Environmental Water Account Scoping process.

3406 Program Evaluation Meeting

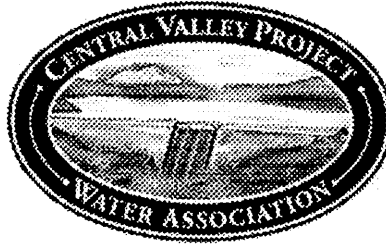
On March 22, Committee members met and discussed progress in developing the CVPIA 3406 program implementation and progress report and determined assignments for completion of this activity.

CVPIA Environmental Water Program (EWP)

On March 31, the Fish and Wildlife and their consultant conducted a technical workshop on their EWP activities. The workshop was a follow-up to previous meetings which involved biologists providing data needed to develop a decision model for numerous water acquisition programs (CVPIA WAP, CALFED EWP). At the workshop, the consultants described the Decision Solution Model (DSM) that was developed in part as a result of requests by stakeholders to ensure that future water acquisitions be made in a credible and transparent fashion. The model incorporates numerous data nodes, most notably biological needs, hydrology and economics. The model also incorporates and links water acquisition to the AFRP doubling goals. The model will be presented to the ERP Subcommittee at their May 19th meeting in Sacramento.

Future meetings:

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| April | 5 | CVP Water Association Board of Directors Conference Call |
| | 11 | Trinity River Flow Schedule Meeting in Weaverville |
| | 12-13 | Trinity Adaptive Manager Work Group Meeting in Weaverville |
| | 14-15 | Trinity Management Council Meeting in Weaverville |
| | 21-22 | American River Conference |
| May | 3 | CVP Water Association Joint BOD/FAC Meeting in San Jose |
| | 4-6 | ACWA Spring Conference in San Jose |



March 18, 2005
Meeting Summary of the
Financial Affairs Committee

1. Participants

--Brice Bledsoe, Contra Costa WD (call-in)	--Alan Thompson, EBMUD
--Bob Stackhouse, CVPWA	--George Senn, CVPWA
--Ara Azhderian, SLDMWA	--Russell Harrington, Westlands WD
--Lynn Hurley, Santa Clara Valley WD	--Mike Hagman, FWA
--Lee Emrick, Colusa County WD	--Anthea Hansen, Del Puerto WD (call-in)
--Eric Limas, Lower Tule River ID (call-in)	--Mike Britton, Westside WD
--Larry Bauman, BOR	--Jesus Reynoso, BOR
--Judy Tapia, BOR (call-in)	

2. Opening Business

The March meeting was held at the ACWA Offices, 910 K Street in Sacramento. The meeting began at 9:30 a.m. and concluded around 11:30. The agenda was reviewed and approved as presented. The February 18 FAC meeting summary was also approved as presented. The next meeting will be held on April 22 from 9:30-11:30 a.m. at the ACWA Offices.

3. 2004 FAC Issues Matrix

A. Budget Workshops – Refining Customer Participation. Larry had no new information to provide. He agreed to follow up with Craig Muehlberg, BOR Budget Officer, to find out what is being planned for future contractor participation in the budgeting process.

B. BOR-WORKS Water Accounting Program Development. Larry acknowledged that Reclamation had received the CVPWA letter from Bob Stackhouse relative to the FAC's request to schedule a meeting with Reclamation staff to discuss the problems associated with the BOR-WORKS water accounting program. He said that Reclamation is drafting a response to the letter and is working with all of the area offices to resolve concerns from water contractors having to reconcile their water delivery data to two different Reclamation data sources. He said that an internal meeting with the area office staff and region staff is tentatively scheduled for the first week in April. He said that the water contractor representatives will not be invited to participate in this meeting.

C. Water Rate Transfer Policy Development. Larry stated that MP-400 (Donna Tegelman) has forwarded the Final Policy on Water Rates for Water Transfers to the Regional Director for his approval and signature. . In accordance with this policy, Reclamation proposes, for the 2005 water year, to credit incremental revenues resulting from water transfers as an offset to Water Marketing costs. Ara said that during meetings last year, Reclamation had agreed to credit incremental revenues resulting from water transfers to those specific capital facilities costs identified as incremental costs involved in the transfer. Reclamation agreed at that meeting to discuss this crediting proposal with the Deputy Regional Director (John Davis). **Action Item** – Larry has the subject document on his desk for surnaming and will meet with Donna to find out the status of the crediting provisions in the final policy.

D. Security Cost Reimbursability. Larry stated that Reclamation is developing a report on the reimbursability of security costs that is required to be completed in May, 2005. He indicated that he believed the subject report was being prepared by Reclamation's Washington Office with input from the Regional Offices.

4. 2005 FAC Issues Matrix. George reported that Brice presented the FAC 2005 Issues Matrix to the CVPWA BOD on March 8 and it was approved as presented. George passed out copies of the Matrix.

5. Capital/Deficit Rate Development. George passed out copies of the principles document that members of the FAC had developed to guide Reclamation in its efforts to come up with new water delivery projections (that would be more in line with actual deliveries) for use in setting CVP capital cost recovery rates. He also passed out a worksheet that compares Reclamation's proposed use of the average of the past five years of paid for project water as the basis for projecting future deliveries with the delivery projections shown in Schedule A-12 of the rate books (note: the current year projected deliveries as shown in Schedule A-12 are based on the 5-year average of paid for project water). The use of 5-year average paid for project water as the basis for delivery projections in the cost pro-ration process essentially reallocates the existing outstanding project capital costs amongst the water contractors—costs are shifted from those contractors whose 5-year average paid for project water is less than the delivery projections shown in the A-12 tables to those whose average paid for project water is closer to the delivery projections shown in the A-12 tables. The use of 5-year average paid for project water (in lieu of A-12 deliveries) causes most contractors' capital repayment rates to increase over those developed through the current process. The group discussed the pros and cons of using deliveries based on a 5-year average and came to the conclusion that the 5-year average would not be suitable for setting capital rates (note: Reclamation didn't comment on the groups conclusions). After considerable discussion, it was agreed that Reclamation would compute, for analysis purposes, CVP Irrigation and M&I capital rates using projected delivery data contained in the Programmatic Environmental Impact Statement prepared for implementing the CVPIA. In addition, Larry indicated that they would compare the 5-year average paid for project water with the average of actual deliveries since 1993 (reflecting the reduced deliveries due to the CVPIA). Larry agreed to have the new computations completed by the first week in April so that the FAC can have time to review them and prepare proposals for the next FAC meeting on April 22.